

The Power of the Many

This is Number Five of a series of special articles published by The National City Bank of New York, co-incident with the opening of its up-town branches. Number Six will shortly appear in this paper.

CAPITAL for the development of the resources of the nation is recruited from funds accumulated by the thrifty. These funds invested in securities aid in a thousand ways.

For many years the investment business of the country traveled in deep ruts of habit and prejudice. It was shrouded in somewhat of mystery and false dignity that did not invite direct co-operation on the part of the general public.

The buying and selling of bonds is after all a very simple and easily understood business, for the buying and selling of these credit instruments is just like the handling of articles bought for every day use.

Bonds are bought at wholesale and sold at retail and the bankers and dealers who make a specialty of this class of business undertake to build up strong organizations of specialists who are able to analyze the relative merits of securities before they are purchased for re-sale to the public.

Some large investment banking houses specialize in making distribution through dealers, but as a rule those who buy bonds for re-sale have sales organizations like other merchants. The dealers and their representatives render a great service to the nation by their preachment of sound doctrines of thrift and investment. Without these investment bankers the business machinery of the country would be injuriously affected, for credit is the very life blood of our business structure.

The most carefully protected credit instrument for general investment is a bond.

Let us consider a bond in its simplest form: A borrower needs a large sum of money and to obtain that money places a mortgage on his property. The amount involved is too great to borrow from any one individual. It is needed for a longer period than a bank could loan it. Hence the mortgage is divided into, let us say, one hundred equal parts and these hundred parts sold to different investors who become, in the aggregate, the ultimate lenders of the amount needed.

As a protection to these investors, a title to the property on which the mortgage is placed is transferred to a trustee, usually a national bank or a trust company, as a pledge that the borrower will fulfill the terms of his mortgage, and the borrower issues separate pieces called bonds, representing the loan. This is an elementary picture of the creation of a bond. The larger the amount involved, the larger are the number of parts into which the mortgage is divided. Each holder of one of these parts looks to the borrower for regular payment of interest during the life of the bond and for the payment of the principal when it becomes due.

When the property has a value greatly in excess of the first mortgage, and the general credit of the borrower warrants, bonds or notes are sometimes secured by a second mortgage, by collateral, or even by the general credit of the borrower alone.

When a nation, state or city desires to borrow money, it offers as security the taxing power of the community, state or nation instead of a mortgage on property.

Bonds usually carry coupons bearing a fixed rate of interest, in most cases payable semi-annually, although the holders of certain government issues receive their interest quarterly.

Creation of Bonds

HERE is an actual case: In 1913 there was a great flood in central Ohio, and Dayton and other cities in the Miami Valley suffered. Many lives were lost and property valued at many millions was utterly destroyed. The future of the whole Miami Valley was at stake.

Something had to be done to assure the people and the

business interests of that district that they could, with safety and security, do away with the danger of future floods. The citizens of the Valley got together, secured legislation, and created the Miami Conservancy District, a political subdivision, with authority to levy taxes sufficient to repay with interest the amount of money necessary to carry out an elaborate project for flood prevention.

Where were the people of the Miami Valley to get such a huge sum, in this case more than \$30,000,000? A group of investment banking houses in New York was approached. They agreed to purchase the bonds to furnish funds needed to begin the work. They then proceeded to advertise and sell the bonds, through their own organizations and through other dealers, in every city in the country.

In other words, these investment dealers reached out through the nation and gathered big and little pools of accumulated funds, giving in return the bonds of a political subdivision of the State of Ohio, the payment of principal and interest being assured by the taxing power of the community.

Today the citizens of the Miami Valley live in peace and safety, knowing that behind mighty protective barriers of earth, concrete and steel which have been built by investors of the country, their peaceful and progressive development is assured.

Who are the Capitalists?

NO single man or small group of men can furnish funds for such developments. Co-operation is the key note of modern business. Big jobs today are done collectively.



THE NATIONAL CITY BANK OF NEW YORK

(MAIN OFFICE: 55 WALL STREET)

*Announces the opening of its branch in the
National City Building, 42nd Street and
Madison Avenue, to be known as the*

42nd STREET BRANCH OF THE NATIONAL CITY BANK

Other Branches:

BROADWAY BRANCH
1133 Broadway, at 26th Street

BOWERY BRANCH
330 Bowery, at Bond Street

More than two thousand customers keep their securities with the Bank and are relieved from a tremendous volume of detail involved in collecting and crediting interest, watching maturities, and looking after income tax items. The Bank exercises the same quality of care over securities left in its safe keeping as it does for securities which are owned by the institution.

More than four thousand other banks carry accounts with The National City Bank of New York, and the accounts of thirty-eight foreign governments are also carried on its books.

1812: Original Paid Capital - \$800,000
1921: Present Capital, Surplus, and Undivided Profits, over \$100,000,000

They are financed collectively. The real capitalists are the people, lending billions of dollars, as they do every year, to Governments, Cities, Public Utilities, Railroads, and Industries. Even the dollars that you put in the savings bank do their share, and the premiums you pay on your life insurance policy; for the savings banks and insurance companies are large investors in bonds and derive a considerable part of their income from the interest received.

Few people realize that the funds for the purchase of bonds come from gradually accumulated surplus and profits of practically all of the thrifty people of this country—from the man of larger means to the man who sets aside a small sum each week.

The methods of modern financing create a community of interest in which the thousands of lenders who have invested in bonds are protected by the underlying security back of the issues, and the increased activities made possible through these investments result in benefit to the whole community.

Where the Purchasing Power Lies

ONE has but to consider that more than 72 per cent—nearly three-quarters—of the entire net income of the people of the United States, as shown by the income tax returns, is received by persons whose incomes do not exceed \$10,000 a year to realize that a large part of the purchasing power of the country lies with the people as a whole—that funds accumulated in relatively small amounts furnish the larger part of the capital employed. The income tax returns for 1918, which are the latest available, show that \$824,902,303 of interest and investment income, not including dividends, was received in that year by persons whose incomes ranged from \$1,000 to \$10,000.

The six million owners of farms and the millions who own their own homes, the vast number of owners of small business concerns and the army of stockholders who own the railroads, banks, and industries are not limited to any class. Every thrifty individual and every successful industry or institution receiving income from investment securities has taken part in the forward movement of industrial progress.

Such are the chief sources of the investment funds of the country. The investor rarely remembers that behind a bond lies the romance of industry and a record of stupendous achievement. The co-operative effort of thousands of thrifty investors has furnished the funds to harness the waterfall and river, build reservoirs and plants to furnish light for distant cities, and power to drive the great machines of industry.

The investors' dollars ultimately furnish the power that makes possible the conquest of the wilderness, the desert, the mountains and the sea. Thrift and investment are the basis of material progress.



As a service to banks, institutions and individuals, The National City Bank for many years maintained a Bond Department which assisted its customers and friends in matters of investment.

As time went on, the volume of business of this character increased to a point where it was desirable to have it handled by a separate organization.

Accordingly, in 1916 The National City Company, closely allied with the Bank, took over the Bond Department. This Company has established offices in the leading cities throughout the United States, Canada and in other countries.

As original purchasers of the bonds and short-term notes of Governments, States and Corporations, the Company buys and offers to investors only such issues as it feels fully justified in recommending.